

Community and Economic Development Needs



This section contains needs analysis on workforce development, small business assistance, and neighborhood and community development in distressed Seattle neighborhoods.

Creating Economic Opportunity for All Seattle Residents

Not all of Seattle's residents are able to participate in the City's economic mainstream which, despite the economic downturn, continues to produce opportunities for employment and wealth creation. The soft economy and increasing housing prices have exacerbated the financial distress of low- and moderate-income earners, meaning that portions of the City's population are increasingly unable to maintain residency in Seattle. Publicly funded economic development programs aimed at the City's low- and moderate-income residents and distressed communities address the needs of these populations. These programs allow more residents to become financially self-sufficient and share in the economic prosperity now enjoyed disproportionately by some segments of the population.

The City of Seattle employs a community economic development strategy with the aim of increasing opportunities for all residents to benefit from Seattle's economic growth. Community Development Block Grant (CDBG) dollars are utilized as the principal funding source for the city's economic development efforts targeted at low- and moderate-income populations. The previous version of Seattle's Consolidated Plan helped guide the City's activities under this goal area from 2001 to 2004. While progress was accomplished during this period, specific community needs persist.

Three general strategies are employed to meet the overarching goal for Seattle's CDBG-funded work promoting economic growth to enhance the viability of low- and moderate-income neighborhoods. Workforce development and small businesses foster wealth creation and are directed citywide, to whomever qualifies for assistance. The physical development of particularly distressed neighborhoods is a place-based strategy to bolster the economic vitality

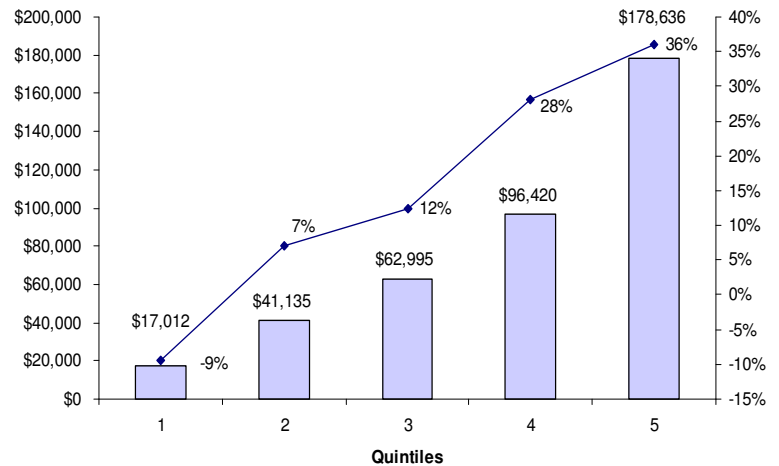
of these communities. These three strategies are interlinked: combined they work to enhance the diversity and vitality of our communities and provide opportunities for businesses, employees and housing that serve neighborhood needs.

Context

The growing gap between the wealthy and poor. Figure 3-36 shows that Washington suffers from an income gap which has only widened as wealthier families have seen their incomes increase more than poor families.¹ These figures (adjusted for inflation) show the average family income for each quintile, averaged over the years 1999 to 2001, and the percentage change from 1988 to 2001. Real income for families in the poorest quintile was \$17,012, dropping 9.4% from the late 1980s. The average income for the wealthiest quintile by contrast was \$178,636, rising 36% over the same time period. The rich got richer while the poor got poorer.

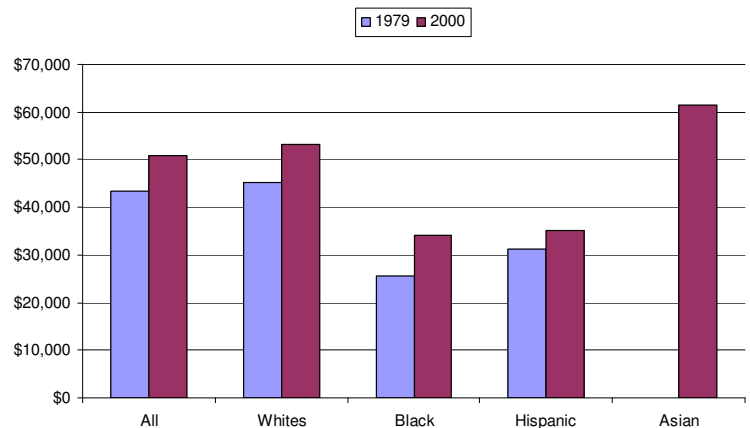
The race gap. The gap between rich and poor in our community is paralleled by a race-based gap which has persisted over time, as shown in Figure 3-37. This wealth gap is evident in home ownership, which is similarly disproportionate. Table 3-39 shows that whites are much more likely to own their home than members of other races.

Figure 3-36 – Income by Quintiles



Source: *Poverty and Growing Income and Wealth Inequality in the United States and Washington State*, a presentation by Mark McDermott; December 11, 2001

Figure 3-37 – Income by Race/Ethnicity



Note: No data was available for Asians in 1979

Source: *Poverty and Growing Income and Wealth Inequality in the United States and Washington State*, a presentation by Mark McDermott; December 11, 2001

¹ U.W. Northwest Policy Center, "The State of Working Washington", September 2001: <http://depts.washington.edu/npc>. Referenced in *Poverty and Growing Income and Wealth Inequality in the United States and Washington State*, a presentation by Mark McDermott; December 11, 2001

Figure 3–38 – Socio-Economic Characteristics of Seattle's Targeted Neighborhoods

	Population	Percentage 25 or Older Bachelor's or Higher	Individuals Unemployed ¹	Percentage Unemployed ¹	Individuals in Poverty	Percentage in Poverty	Percentage Spending 30% or More of Income on Rent	Percentage Foreign Born	Percentage Non-White
Seattle	563,375	47%	28,748	5%	64,184	11%	40%	17%	30%
Targeted Neighborhoods									
<i>Central District</i>	34,053	34%	2,320	7%	6,380	19%	45%	15%	49%
<i>Delridge</i>	13,775	25%	1,119	8%	2,968	22%	39%	27%	58%
<i>Int'l District</i>	3,816	14%	775	20%	1,831	48%	35%	61%	82%
<i>Pioneer Square</i>	5,086	32%	1,145	23%	1,907	37%	33%	14%	30%
<i>Rainier Valley</i>	44,966	20%	3,851	9%	7,719	17%	43%	41%	82%
All Targeted Neighborhoods	101,696	26%	9,130	9%	20,805	20%	40%	30%	65%
Non-targeted Neighborhoods	461,679	51%	20,406	4%	43,379	9%	39%	14%	22%

Source: 2000 Census

¹ Population is limited to individuals 16 and older that are in the workforce (i.e. not retired or unable to work)

All Seattle Residents Have an Interest in Maintaining Seattle's Diversity and Decreasing Segregation of the Wealthy and Poor

Seattle's Distressed Communities

Many Seattle residents are not able to participate in opportunities generated in the City's mainstream economy. Moreover, these economically marginalized individuals are concentrated in particular Seattle neighborhoods, which have become centers of economic distress. Detailed characteristics of Seattle's distressed communities, listed as Targeted Neighborhoods², are described in Table 3-38 on the previous page and in the tables and the maps found in Appendices Q1-Q5, Maps: Targeted Neighborhoods. Non-Targeted Neighborhoods include all other communities in the City.

The populations of targeted neighborhoods are disproportionately less educated, less employed, and less prosperous. They are also disproportionately composed of immigrants and non-whites who may also face barriers to economic well-being such as discrimination and language difficulties.

- While 51% of adults 25 or older have a bachelor's degree elsewhere in the City, only 26% in the targeted neighborhood population has this level of education.
- At 9%, unemployment in targeted neighborhoods is nearly double that of the non-targeted population (5%).
- Approximately one quarter of the City's low-or moderate income³ population lives in these neighborhoods.
- While 42% of individuals in non-targeted areas of the City are considered low- or moderate-income, fully 51% of the targeted area population is so categorized.
- Foreign born individuals constitute 30% of targeted area population, versus 14% of the non-population in non-targeted areas.
- Non-whites make up 65% of the targeted area population, compared to 22% of the non-targeted areas.

Richard Florida is a researcher and author who asserts there is a strong correlation between the presence of art, culture and diversity in a region and the presence of a successful knowledge-based economy. His work cites Seattle as one of the cities that manifests this valuable relationship and ranks Seattle as the U.S. region with the fifth highest "creativity" score according to Florida's Creativity Index.

Table 3-39 - Home Ownership In Seattle by Race

White non Hispanic	51%
Black	36%
Asian/ Pacific Islander	46%
Hispanic	25%
Native American	27%
Other	29%

Source: Census 2000

² "Targeted Neighborhoods" refers to the Neighborhood Revitalization Strategy Areas approved by the Seattle City Council and the federal Department of Housing and Urban Development (HUD) in 2000. The data in Table 3-38 corresponds to the established NRSA boundaries as adjusted due to changes in census tracts from 1990 to 2000.

³ Data on low- and moderate-income individuals is derived from data published by HUD: <http://www.hud.gov/offices/cpd/systems/census/lowmod/wa/BlockGroup.xls>. "Low- and moderate-income" means household annual income generally less than 80 percent of area median income, as established by HUD.

Unfortunately, his research also shows that “rising social and economic inequality” appear to be a negative externality that accompanies a successful and creative economy. Florida reports that income “inequality is highest in the creative epicenters of the U.S. economy.” His concerns about income inequality – and unaffordable housing that exacerbates it – very much apply to the Seattle economy as reflected in data throughout this document.⁴

Seen in this regard, a crucial component of Seattle’s community and economic development efforts should include strategies that nourish Seattle’s racial and cultural diversity. Florida argues that economic inequality harms the economic prospects of all residents, regardless of their social or economic status. In particular, he asserts that racial, cultural, and economic diversity is a central component of a successful creative economy and, as such, necessary for the continued prosperity of all residents: “Our work finds that places open to immigrants, artists, and gays, and which are less segregated, do best. These places mobilize existing creative energy in their cities and attract creative energy from outside by allowing people to be themselves and validate their identities.”

Wealth Creation Through Workforce Development

King County has experienced tremendous wage growth over the past decade, particularly in very high wage jobs paying above \$24 an hour.⁵ These high paying jobs often require levels of education, skill, and experience that are out of reach for adults living in Seattle’s distressed communities.

There is a clear need to enhance the education and skill of portions of our population to enable them to move into higher-wage work. While employment opportunities with little or no education or training requirements are prevalent, their low rate of pay does not allow financial self-sufficiency and many do not offer benefits or opportunities for advancement. A lack of appropriate skills not only limits employment opportunities for job seekers, but also has negative impacts on employers and the economy as a whole.

Wage and cost of living data for Seattle and King County reflect an even more pronounced income gap than described above on a statewide level. The average wage in King County for the top 10% of wages paid is 11.6 times greater than the bottom 10%. This figure – well above statewide ratio of 9.6 – represents the greatest wage disparity in the state. The cost of living in Seattle is also disproportionately high compared to other areas of the state. A family of three needs to earn a minimum of \$37,807 to get by without any additional assistance, taking into account minimal costs for healthcare, food, transportation, housing and childcare.

Education and Training Increasingly Required

An individual’s ability to gain well-paying employment is increasingly tied to education and training. Figure 3-40 clearly shows the relationship between increasing education levels and

⁴ “The Great Creative Class Debate” published in *The Next American City*, Issue 5; 2004: www.americancity.org/Archives/Issue5/florida.html.

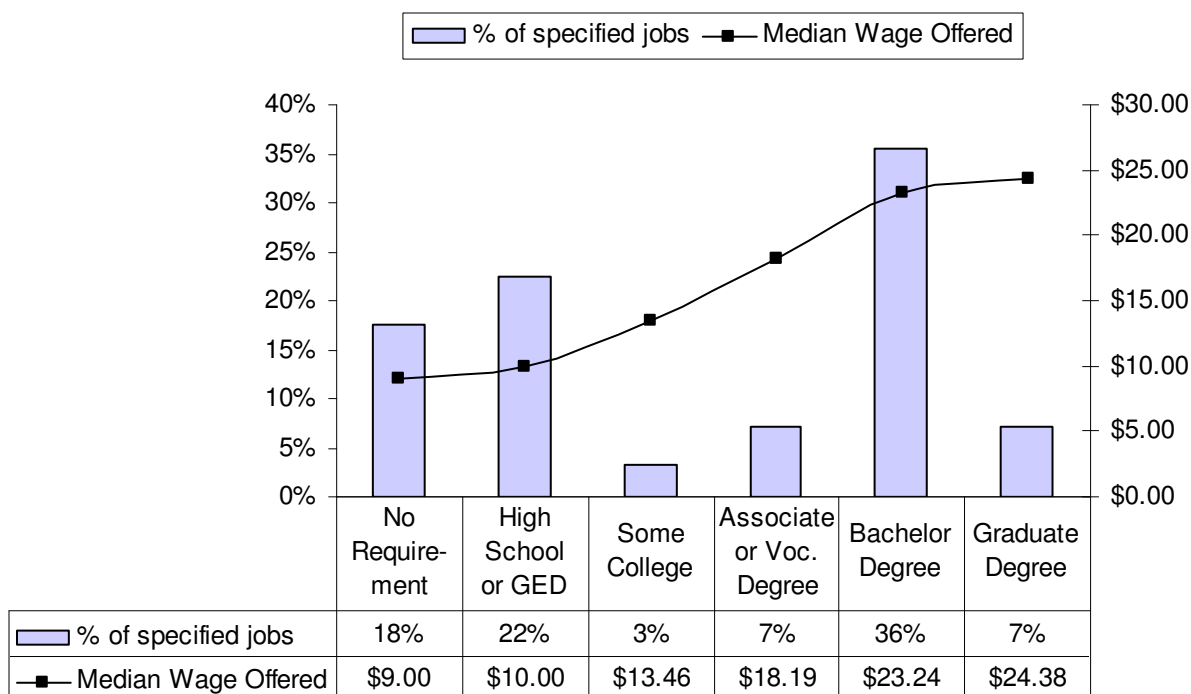
⁵ *Washington Wage Report*, ESD, 2002

increasing pay. As the survey results summarized in the Needs Assessment indicate, low- and moderate-income residents empirically understand the connection between their economic well-being and success in the workplace. They reported “help getting jobs” as the highest rated activity the City should fund with its Community Development Block Grant resources.

The move towards a more educated workforce is expected to continue in the future. According to the Workforce Training and Education Coordinating Board (WTECB) publication titled *Washington's Economy* (revised April 2003 with results of the 2002 employer survey), “The economic future is not bright for workers entering jobs that typically require little or no training. There will be jobs, but not good ones.”

The *2004 Washington State Employee Survey* (WTECB) states that, “Forty-eight percent of firms reported that the skills required to adequately perform production or support jobs had increased over the last three years.” Moreover, “skill requirements will continue to increase. As a result, about a third of all firms reported their need for workers with postsecondary training would increase over the next five years.” Table 3-41 shows the percentage of employers who expect to hire additional workers at given education levels.

**Figure 3-40 – Share of October 2003 Vacancies for Seattle/King County
By Education Requirement and Average Hourly Wage Rate**



Source: October 2003 Washington Job Vacancy Survey, ESD

Table 3-41 – Percent of Washington Employers Expecting an Increased Need of Future Employment by Educational Level	
Educational Level	
Neither a high school diploma or GED	12%
High school diploma or GED	17%
Some college course work	27%
Vocational certificate	35%
Vocational associate degree	30%
Academic associate degree	30%
Baccalaureate degree	34%
Master's, doctoral, or professional degree	24%
Source: 2004 Washington State Employee Survey, WTECB	

Need for Additional Training

The opportunity exists to close the gap in education which increasingly prohibits those with less education from securing better paying employment. Seattle/King County job vacancy numbers show that 42% of jobs paying \$10 to \$19.99 an hour require an education achievement beyond high school or the GED. Of jobs paying \$15 to \$24.99, fully 66% have such a requirement.⁶ While these jobs require education beyond high school, they do not necessarily require a college

⁶ October 2003 Job Vacancy Survey, ESD

degree. The median wage offered for a position requiring some college, but not a completed degree, is \$13.45.⁷

Not only do jobs requiring slightly more education pay more, but these positions are also more likely to be full-time and permanent as illustrated in Table 3-42. This contributes to more stable households and neighborhoods.

Table 3-42 – Current Job Vacancies in Seattle/King County

Required Education Level	Estimated Job Vacancies	Percent of Specified Jobs	Median Wage Offered	Full-Time Openings	Permanent Openings	Requiring License or Certificate	Requiring Related Experience
No Requirement	2,984	18%	\$9.00	68%	78%	10%	38%
High School or GED	3,791	22%	\$10.00	67%	82%	18%	55%
Some College	557	3%	\$13.46	81%	92%	14%	80%
Associate or Vocational Degree	1,199	7%	\$18.19	80%	97%	61%	81%
Bachelor Degree	6,006	36%	\$23.24	97%	99%	14%	94%
Graduate Degree	1,196	7%	\$24.38	93%	98%	26%	90%
Other	1,175	7%	--	74%	64%	62%	70%
Not Specified	3,972	--	\$11.00	63%	80%	28%	46%
<i>Seattle-King Total</i>	<i>20,881</i>	<i>100%</i>	<i>--</i>	<i>78%</i>	<i>87%</i>	<i>23%</i>	<i>67%</i>

Source: October 2003 Washington Job Vacancy Survey, ESD

Need for a Stepwise Program

While many of Seattle's growth industries feature highly skilled, highly paid jobs, they also include middle rung jobs. These jobs could be accessed through additional education and training targeted to those industries.

Workforce development programs are needed to increase education and training aimed at industries with middle rung jobs, such as manufacturing and construction, in order to progressively move individuals into better paying, more competitive work roles as their skills and experience increase. Known in the field of workforce development as a "stepwise" program, the movement up the job ladder created by such a program also serves to free up entry-level positions for others in earlier stages of career development.

Seattle is built around high-end jobs. As Boeing and others leave, who will replace them? What will the middle rung be? Increasingly you see professional workers and people who work in the services/support economy – there's not much of a middle rung.

Community Stakeholder
March – May, 2004

Workforce development programs function well to serve this niche, as many well-paying jobs do not necessarily require a college degree: "The greatest number of new family-wage job opportunities will be in occupations that require postsecondary education but not a four-year degree. Over the next decade, there will be approximately more than 28,000 annual job

⁷ *ibid*

openings⁸ for technicians, paralegals, health care workers, salespeople, and other occupations that require more than one year and up to, but less than four years of postsecondary education”.⁹

Employer Needs

A labor pool comprised of individuals with diverse skills and salary expectations supports Seattle's ability to attract and retain diverse employers. This maintains vibrancy at all levels of the economy and benefits both high- and low-skilled individuals who secure employment with these businesses.

As job-seekers need an increasing level of education or training, employers have a corresponding need for more skilled workers. Specific sectors, such as health care (detailed in the sidebar at right), are facing an acute workforce crisis, and a range of industries is being negatively impacted by a skill shortage of appropriately qualified job seekers.

The material that follows draws from the *2004 Washington State Employee Survey* published by WTECB. The survey asked employers to consider hiring difficulties they experienced over the previous twelve months. Forty-five percent of Washington State respondents attempting to hire reported difficulty finding qualified job applicants. For Seattle/King County, the figure was even higher at 54%. These complaints occurred at a time of high unemployment, with a large available labor pool to draw upon. These shortages may only be expected to worsen as the economy improves and workforce availability tightens. In 2001, for example, 60% of respondents attempting to hire in Washington State and 71% in Seattle/King County reported difficulty finding qualified job applicants.

A Shortage of Skilled Workers

The problem is not a general shortage, but a scarcity of workers with postsecondary training. “Among employers attempting to hire workers with a vocational associate degree or a baccalaureate degree... about 67% reported difficulty finding qualified applicants. In contrast, among employers attempting to hire workers with only a high school diploma, only 24% reported difficulty”.¹⁰

Specific Needs in Health Care

The health services industry faces a crisis: a shortage of skilled workers. The Washington State Health Care Personnel Shortage Task Force found in late 2002 that this shortage threatens the quality and accessibility of health care, the financial stability of the health services industry, and the financial stability of the state.

The Task Force also found health care facilities across the state are operating with critical staff shortages... Occupations with critical shortages include nurses, medical aides, dental hygienists, laboratory personnel, pharmacists, physicians, radiology technologists, billers and coders, among others.

⁸ This figure is a revised projection amended by WTECB which incorporates the economic tightening following the events of September 11, 2001. The original document estimated 35,600 annual job openings in this category.

⁹ *Washington's Economy*, WTECB, revised April 2003

¹⁰ *2004 Washington State Employee Survey*, WTECB

Table 3-43 – Employer Difficulty Finding Applicants by Education Level	
Educational Level	Employers Attempting to Hire at That Level
Neither a high school diploma or GED	19%
High school diploma or GED	24%
Some college course work	35%
Vocational certificate	53%
Vocational associate degree	67%
Academic associate degree	60%
Baccalaureate degree	68%
Master's, doctoral, or professional degree	68%
Source: 2004 Washington State Employee Survey, WTECB	

Of those employers reporting difficulty finding qualified applicants with specific skills and abilities in Washington State, 91% reported that they could not find job seekers with occupation-specific skills: “Employers were looking for skills that many of the unemployed workers and new labor market entrants did not have. The shortage is greatest for jobs requiring postsecondary education, especially for vocationally trained workers from our community colleges, apprenticeship programs and private career schools”.¹¹

Negative Economic Impacts

This skill shortage has negative economic impacts on both affected employers (shown in Table 3-44) and to our state's economic in general (reflected by impacts listed in Table 3-45).

Table 3-44 – Employer Response to the Shortage of Qualified Applicants		
Response	Percent of Employers Who Had Difficulty	Percent of All Employers
Increased recruiting efforts	72%	15%
Hired a less qualified applicant	62%	13%
Increased overtime for employees	50%	10%
Did not fill the opening	41%	9%
Increased wages to attract applicants	34%	7%
Outsourced work to another firm*	28%	5%
*This does not necessarily involve outsourcing overseas; the other firms could be in Washington or another state.		
Source: 2004 Washington State Employee Survey, WTECB		

¹¹ ibid

Table 3-45 – Economic Impacts of Skill Shortages

Impact	Percent of Employers Who Had Difficulty	Percent of All Employers
Reduced production output or sales	70%	16%
Lowered overall productivity	69%	16%
Reduced product or service quality	56%	13%
Prevented firm from expanding its facilities	31%	8%
Prevented firm from developing new products/services	31%	7%
Caused firm to move some operations out of state	4%	1%

Source: 2004 Washington State Employee Survey, WTECB

Wealth Creation Through Small Business Support

There's never been a time with more need to support entrepreneurs creating jobs. We need a place for entrepreneurs who can't go to college to get the education and financing they need to play a role in building their communities.

Community Stakeholder; March - May, 2004

Small businesses play a critical role in the Seattle economy. Table 3-46 illustrates small business contributions to employment and payroll in the Seattle-Bellevue-Everett Metropolitan Statistical Area according to the 2001 Economic Census data.

Table 3-46 – Small Business Contributions

Employees	Employment		Annual Payroll	
	Total	Percent of Total	Total	Percent of Total
Less than 100	441,389	35%	\$15 billion	26%
Less than 500	615,901	48%	\$22 billion	39%

The Small Business Administration states that small businesses account for 60% to 80% of net new jobs added to the national economy. Moreover, small businesses tend to be stable employers, laying off fewer workers in downturns. "Large businesses, which by definition can take better advantage of economies of scale, may have more to gain by boosting productivity, particularly when demand drops off. Small manufacturers, to take one example, are unlikely to ship production work overseas because they simply do not have the resources to assure quality control and quickly adjust run rates".¹²

The City's investments in small business support complement its workforce development efforts. Small businesses serve both to create financial gains and opportunities for entrepreneurs and as employment opportunities for job seekers including many from Seattle's low-income population.

¹² *Small Business Having a Big Impact on Jobs*, MSNBC, February 3, 2004, <http://www.msnbc.msn.com>

Important Source of Employment and Income for Less-Skilled and Low-Income Individuals

Small businesses contribute to the range of jobs available in Seattle, creating additional employment opportunities for those with less education and skill, who might be otherwise unable to find work in larger businesses. According to the *Washington Job Vacancy Survey* jobs in larger firms were more likely to have education or related experience requirements. While 48% of vacancies larger firms require a high school diploma or the GED, only 26% of those firms with less than 250 employees did so. Similarly, while 68% vacancies in larger firms require related experience, only 41% of those in firms smaller than 250 employees did.

In addition, small businesses create a greater number of opportunities for low-income job seekers. “Small firms employed more individuals on financial assistance (money, excluding loans, received from friends or relatives not living in the same household) and on public assistance (assistance received from government sources, excluding food stamps and Social Security payments) than did large firms”.¹³

Particular Challenges for Minority Small Business Owners

Minorities now own nearly 15 % of American businesses, of which 99% have fewer than 100 employees (compared to 98% for non-minorities).¹⁴ “Measured by receipts size, black-owned businesses in particular were much more likely to be small: black-owned firms constituted more than 30% of the minority-owned firms earning less than \$25,000 in receipts, but just 10% of those earning \$500,000 or more. Hispanic and American Native-owned firms also had somewhat larger shares of the firms in the smaller receipts size categories”.¹⁵

The poor and moderate-income population could be served through small business support. This could be microloans, assistance with understanding taxes (the B&O forms in particular are very confusing), permitting and licensing processes, and such.

Community Stakeholder
March - May, 2004

One explanation for the small size of many minority-owned businesses is that difficulties accessing capital are particularly acute for minority business owners. “Lack of financial capital is one of many impediments to the survival of small firms and minority-owned firms in particular”.¹⁶ This difficulty may not only restrict the size of minority-owned firms, but also what industries they focus on: “The fact that minority-owned businesses tend to be more prevalent in industries with lower entry costs may – at least in part – reflect more binding liquidity constraints and generally less access to startup capital among prospective minority business owners”.¹⁷

¹³ *The Characteristics of Small-Business Employees*, in the Monthly Labor Review, by Brian Headd of the SBA, April 2000

¹⁴ *Minorities in Business, 2001*; Office of Advocacy of the U.S. Small Business Administration

¹⁵ *ibid*

¹⁶ *Minorities in Business*, Small Business Administration, 2001

¹⁷ *ibid*

Difficulties Accessing Capital and Technical Assistance

The two most significant factors in successful businesses are being large enough to have employees and having \$50,000 or more in start-up capital.¹⁸ Businesses with easier access to early stage capital have a greater chance at success than firms with limited access to resources.

The *Report to Congress on the Availability of Credit to Small Business* (2002) states that “23% of respondents indicated that they had forgone applying for credit when they needed it because they feared denial.” Furthermore, “Among small businesses (less than 500 employees) larger firms were more likely than smaller firms to have their loans approved.”

Small firms may frequently be considered nonbankable by traditional lenders. These businesses are often seen as high-risk, particularly given that they have “less collateral to pledge as security, and are more informationally opaque”.¹⁹ Additionally, given the relatively high costs of evaluating and monitoring these firms, “loans to small businesses [are] less attractive for many lenders, especially because, when expressed as a percentage of the (small) dollar amount of the proposed loan, these non-interest costs are often quite high relative to loans to middle-market or large corporate borrowers”.²⁰ While unattractive to traditional lenders, these same businesses may be very appropriate candidates for specifically designed loan products offered by alternative lenders. The higher interest rates charged by these lenders are appropriate given the increased risk and carrying costs of these loans.

Loan products offered by alternative lenders often include a technical assistance and business planning component. This support is needed by those small-business entrepreneurs who are less experienced and perhaps less educated and less able to access other resources. This assistance enhances the likelihood of success for small business owners, creating a more stable base of wealth, employment and service provision in neighborhoods.

Community Economic Development

The City's place-based community economic development efforts constitute a robust community revitalization strategy, stimulating the economic and community vitality of Seattle's distressed communities. These efforts, targeting communities with concentrations of low employment, low income populations and a high presence of immigrants and minorities, address multiple inter-related community needs including the need for jobs and small business opportunities described above. Additional needs discussed below include:

- Few commercial services
- Lack of population density to support commercial development
- Contribution to meeting regional development goals
- Lack of affordable housing options for the working poor
- A market gap preventing private development

¹⁸ *Redefining Business Success: Distinguishing Between Closure and Failure*, by Brian Headd, SBA

¹⁹ *ibid*

²⁰ *ibid*

Catalytic Development Requires Public Involvement

The challenge is to take land otherwise considered “undevelopable” and create housing and commercial space that will generate the greatest positive impact on the local community but not necessarily the greatest profit for the investor. Over the long-term, success in this can change the local economics enough to stimulate private housing, commercial and mixed-use development without public sector involvement.

Given these challenges, public involvement is required to make these projects happen, both in terms of project support to bridge the market gap and operating funds to support the organizations that engage in this work.

The market gap. Mixed use and multifamily development projects are needed in Seattle’s distressed neighborhoods. Mixed use projects fulfill both commercial and housing needs, and their high density population and pedestrian- or transit-friendly orientation meets goals of the Growth Management Act and existing Neighborhood Plans.

The markets in some Seattle neighborhoods, however, are not mature enough to independently make this type of desired development financially feasible for private developers. As shown in Figure 3-47, which uses real market value and costs for a project proposed for the Rainier Valley, the numbers simply don’t “pencil” without direct public participation.

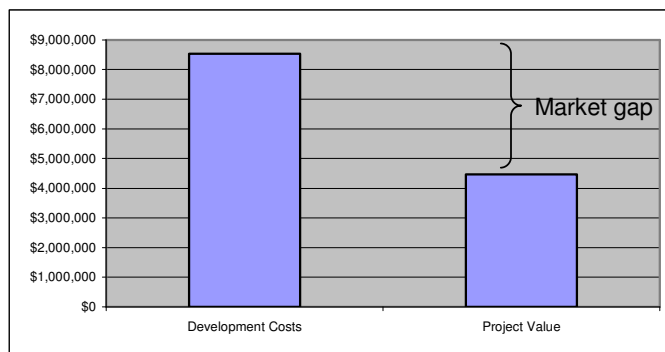
Figure 3-47 – Market Gap

Project

43,560 SQ. FT. Lot
61,707 SQ.FT. Building
40 Residential Units
7,300 SQ.FT. Retail Space
60 Parking Spaces

Project Economics

Development Costs	\$8,536,578
- Project Value	\$4,464,578
Market Gap	\$4,072,000



Source: *Rainier Valley Community Development Fund Real Estate Financing Tools*, a presentation by the National Development Council; April 8, 2004

In order to achieve the desired development – a mixed use project in the example above – the public sector must play a role to bridge the market gap. Market forces alone would leave this land undeveloped, or create less desirable lower-level development.

This market gap may be addressed through direct project subsidy, or through other community development activities, such as rehabilitation of existing buildings and improvements to building facades, that create safer, more attractive neighborhoods. Such efforts attract businesses, shoppers, and private development – as well as the related jobs, entrepreneurial activity, service provision and private investment dollars.

Economic Integration of Low-Income Neighborhoods

The Brookings Institution recently conducted a literature review of U.S. research on neighborhoods of concentrated poverty. Their review concluded that concentrated poverty in distressed neighborhoods has a strong negative impact on the health, education and employment opportunities of low-income families. The Brookings Institution further concluded that integration into the mainstream economy is the essential element of any strategy attempting to overcome the negative impacts of concentrated poverty. Specifically, they recommended multi-dimensional strategies that create communities in which people of lower incomes can both find “a place to start and, as their incomes rise, a place to stay”.²¹

The Seattle neighborhoods that are home to the highest concentration of low-income residents have long articulated the same need for “economic integration” cited by the Brookings Institution. For example, planning documents conducted for the Rainier Valley over the last decade promote the development of housing at a variety of income levels and the diversification of employment, wage and salary levels as important elements of the revitalization strategies recommended by the people who live and work in these neighborhoods.²²

The City of Seattle employs Community Development Corporations (CDCs) as key partners in the implementation of “place-based” economic development strategies for the Targeted Neighborhoods summarized earlier in Table 3-38 of this Section. These CDCs report a critical need to support mixed-use, multi-family developments targeting the economic and housing needs of the working poor: those in low- and moderate-income brackets up to 80 percent of the area median income. They report that private development provides market-rate housing for higher income households and publicly subsidized housing typically focuses on the needs of the very poor.

Descriptions of this gap in funding for low- and moderate-income housing is supported by the research of Impact Capital, a Seattle based non-profit working in conjunction with LISC to enhance the capacity of CDCs to develop and manage quality housing and economic development strategies. Their research shows that working households are often locked out of subsidized affordable housing opportunities because they earn “too much” (i.e. more than 50% area median income). In theory, households earning less than 80% AMI are eligible to live in subsidized housing. In practice, however, subsidy awards are very competitive and heavily weighted to families below 50% AMI. Affordable housing developers know that projects targeting higher median income residents are not as likely to be funded. The result is a de facto “cut off” of public source money at 50% AMI, a situation that is not expected to change in the near future.

²¹ Bruce Katz, Vice President and Director of the Brookings Institution Metropolitan Policy Program, “Neighborhoods of Choice and Connection,” The Brookings Institution, July 2004.

²² The plans reviewed include the Southeast Seattle Action Plan as written in 1991 and amended annually through 1997, the MLK at Holly Street Residential Urban Village Plan of July 1998, the Rainier Beach Neighborhood Plan of March 1999, the North Rainier Hub Urban Village Neighborhood Plan of May 1999, the Columbia City/Hillman City/Genesee Neighborhood Plan of February 1999, and the Rainier Valley Community Development Fund Needs Assessment of June 2004.

The Operating Gap

The catalytic projects described above – in which desirable development is stimulated in immature markets – are by their nature expensive and time-consuming to implement. High costs stem from extensive efforts around community involvement, predevelopment, environmental regulations, and land assembly. Financing costs are also high and timelines are long given the complexity of these deals.

As rents will not support a mortgage large enough to cover a significant portion of the purchase and development of the property, and because nonprofit developers typically do not have large unrestricted cash reserves, affordable housing projects require subsidies to fill financing gaps. In a typical affordable housing deal, this subsidy comes from four to six sources. Each of these sources has a separate application process with infrequent application windows. The application and approval process for the four to six sources may demand two to three years simply to assemble the financing for an affordable housing project. This timeframe and financing complexity greatly increase both carrying costs and staff costs required to complete a project.

Developer fees do not cover the full costs of the organizations doing this community-changing work. The high carrying costs described above and long timeline for development necessitate the use of public funds to support successful completion of catalytic real estate projects undertaken by community-based development organizations within Seattle's distressed neighborhoods.

Provision of More Commercial Opportunities and Services

Residents of Seattle's distressed neighborhoods currently face a dearth of local services and are forced to go outside the community to meet their shopping needs. A survey conducted by the Rainier Valley Community Development Fund in Southeast Seattle reported that more than 60% of respondents expressed a need for more local businesses. This demand covers both retail goods and services (groceries, clothing, books, and restaurants) and professional services (insurance, law, and accounting). The respondents noted that availability of more and more varied services would limit retail leakage into neighboring Renton and Tukwila, decreasing wealth flows out of the local community.

Additional commercial space and commercial tenants not only address otherwise unmet service needs of the community. They also provide additional opportunities for entrepreneurship and employment, contributing to the economic prosperity of the low- and moderate-income population which lives in these neighborhoods.

There is a link between commercial development and housing, with desired commercial development dependent upon the presence of a base residential population. Until a threshold residential population is established, private investors – and small business entrepreneurs – will not risk investing in development of services in distressed neighborhoods. Building a local residential population is supportive of development of services and attracting private investment.

Before you can support commercial development you need a vital residential base. Lots of early economic development work in the Central Area was housing residential development: you can't put the burden on merchants.

Community Stakeholder
March - May, 2004

Affordable Housing for Seattle's Low- and Moderate-Income Populations as a Wealth-Creation Strategy

Housing is integrally connected to the targeted economic community development strategy described in this section, as well as to the wealth creation efforts described in the sections above. Housing is a needed component in development of commercial services as mentioned above, and affordable housing is essential to maintaining the cultural and economic diversity of Seattle's population.

Despite the economic downturn, housing prices in Seattle continue to be high and housing is becoming less affordable to the working poor. Seattle's distressed communities provide a significant share of the city's affordable housing options, providing 30% of apartments that rent for less than \$400 a month, 19% of those less than \$600 and 11% of those less than \$800.²³ However, housing in these areas is becoming relatively less affordable. The gap between rents in these areas (for which the combined average rent is \$848) and Seattle (\$965) and King County (\$854) has been narrowing: the average rent in the areas in question was 89% of the County average in 2003; in 2003 it was 99%.²⁴

As a result of increasing housing costs, many working families – schoolteachers, nurses, landscapers, waiters, bus drivers and others – are forced to seek housing further and further from their place of employment while paying more and more for rent. Families spending more than 30% of their income on housing costs are five times more likely to lose their homes than families spending less than 30% on housing costs. The reason is obvious: a family with a lower housing burden can better weather temporary cash flow crunches, most frequently caused by health issues, than a family with a higher housing burden.²⁵ Affordable housing contributes to household and neighborhood security and stability.

Without public investment in affordable housing, the City's economic development efforts would constitute a de facto displacement policy: as the City's economy grows and as neighborhoods develop, housing costs increase, effectively pushing out low- and moderate-income populations such as the family described above. Affordable housing options ease this pinch and enable a more diverse population to maintain residency in the City, near to their place of employment.

Conclusion

Examining Seattle's distressed communities reveals a web of interrelated needs, requiring coordinated programmatic responses across a range of disciplines including workforce development, small business assistance and community economic development.

The combination of a soft economy with high housing prices has exaggerated the strain on the City's unemployed and low-income earners. Programmatic responses to these needs should grow the economy at all levels and maintain a spectrum of affordable housing, allowing more individuals to participate in Seattle's economic prosperity and to live within the City, close to their place of work.

²³ City of Seattle Housing Research in Neighborhood Revitalization Areas, Dupre + Scott, January 2004

²⁴ *ibid*

²⁵ Impact Capital, 2004